Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Ortiz	Analyst:	Darrine Distefano	Bill Number:	SBXX 75
Related Bills:	See Prior Analysis	Telephone:	845-6458	Amended Date:	06-20-2001
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Energy Efficient Products or Equipment Loan Interest Deduction

____	DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ______________________.
X	AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
X	AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced May 17, 2001.
X	FURTHER AMENDMENTS NECESSARY.
X	DEPARTMENT POSITION CHANGED TO Support.
X	REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED May 17, 2001. STILL APPLIES.
____	OTHER - See comments below.

SUMMARY

This bill would allow a deduction for interest paid on any loan or on a loan financed through a utility company to purchase energy efficient equipment and products for California residences.

SUMMARY OF AMENDMENTS

The June 20, 2001, amendments made the following changes to the bill:

- Specified that the deduction will be allowed on interest paid on loans obtained through either a private or publicly owned utility company.
- Required that energy efficient products or equipment be installed on a qualified residence located in this state instead of on property located in this state.
- Clarified that the certification requirement would be done by either a private or publicly owned utility company rather than a utility corporation or local publicly owned utility.
- Added zone heating products to the definition of "energy efficient product or equipment."
- Provided definitions of "zone heating products," "publicly owned utility company," "qualified residence," and "private or publicly owned utility company loan or financial indebtedness."
- Added legislative intent language to encourage utility companies that do not offer financing for energy efficient products to inform their customers in writing that interest on a home equity or home improvement loan may be tax deductible.

Board Position:			Legislative Director	Date
X S	NA	NP		
SA	O	NAR	Brian Putler	07/05/01
N	OUA	PENDING		

The amendments did not resolve the department's technical consideration with respect to the bill as introduced May 17, 2001. The unresolved technical consideration is provided below for convenience, with the new revenue estimate. The remainder of the department's analysis of the bill as introduced May 17, 2001, still applies.

POSITION

Support.

At its June 27, 2001 meeting, the Franchise Tax Board voted 2-0 to support this bill, with Annette Porini, on behalf of Member B. Timothy Gage, abstaining.

TECHNICAL CONSIDERATIONS

The language in the bill encouraging private and public utilities to notify customers about the interest deduction provided by the bill or provided on a home equity or home improvement loan may be more appropriately located in the Public Utilities Code.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in revenue losses as shown in the following table:

Estimated Revenue Impact of SBXX 75 As Amended 6/20/01 [$ In Millions]		
2001-02	2002-03	2003-04
-$0.8	-$1.0	-$1.5

Revenue Discussion

The projected revenue losses for this bill decreased from $5 million annually to $1 million-$2 million range annually beginning in 2002-03 as result of the June 20, 2001, amendments. The revenue impact of this bill would be determined by the amount of interest expenses, not otherwise deducted as part of home equity financing, that are claimed by taxpayers for loans or financed indebtedness obtained from a private or publicly owned utility company for acquiring and installing energy efficient products or equipment, and the marginal tax rates of such taxpayers.

Only one significant municipal utility district in California was identified as lending money to its customers to encourage and enable them to acquire and install energy efficient products or equipment at a qualified residence. According to staff at this municipal utility district, outstanding loans currently total roughly $70 million.

Each year, some level of new loans is funded and a certain level of existing loans is paid off. Once funded, borrowers generally repay loans, on average, over a period of 48 months. This utility district currently offers fixed interest rates that vary according to the amount of the loan. The overall average interest rate is estimated at 9.5%. Assuming an average marginal tax rate of 6% for taxpayers who borrow, revenue losses under current conditions would range from between $500,000 and $1 million annually. If, however, due to the enactment of the proposed deduction, other utilities initiated similar loan programs, revenue losses potentially would increase in subsequent years.

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